

POTENTIAL BUSINESSES FOR YOU
TO START IN STOCKTON

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A Special Report Outlining the Results
of the Urban Business Identification System
for the Stockton Urban Area

Prepared for the City of Stockton
by the
Council for Economic Action, Inc.

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A \$600 course changed Rose Ferdinand's future

By Rushworth M. Kidder

Staff writer of The Christian Science Monitor

I'm a fighter," says Rose Ferdinand quietly. "Giving up is not something I do." So last year, when the Georgia-born black woman heard an ad on a minority-owned radio station in Boston, she perked up. It described a new management training program spearheaded by a local nonprofit economic development group and run by Boston University (BU).

Now, with the five-month course behind her, Mrs. Ferdinand is the proud owner of Nia Fabrics, a tiny fabric store in Boston's inner-city

Boston

Mattapan area. Six months after opening, her 420-square-foot storefront company (run with help from her sister, Patricia Strodder, and, on Saturdays, Rose's husband, Thony) is meeting all its projections, she says — with "a lot of support from the community."

Mrs. Ferdinand is not alone. There are up to 35 million minority adults in cities all across the United States, according to James D. Howell, chief economist of the Bank of Boston. Many adults are interested in starting their own companies, he explains, but they need an understanding of the three small-business ingredients:

marketing, management, and capital.

Dr. Howell, a nationally recognized expert on economic development issues, helped conceive the BU plan after years of study of inner-city economic opportunities. Working with the nonprofit Council for Economic Action (CEA), he earlier pioneered a method for surveying local communities to see what sorts of small businesses are needed — and which are likely to survive.

"There are ample nooks and crannies in any large city" for small businesses to fill, Howell says, if only they can be identified. According to his most recent surveys, Boston itself still can support many more small businesses — including, for example, bathroom accessories stores, furniture cleaning firms, picture framing shops, and lawn maintenance contractors.

Once a community's needs are understood, the next step is to match these business opportunities with would-be owner-operators — and to make sure the candidates know how to manage a business.

Enter the Small Business Development Program at BU, which is now gearing up for its second year. It requires no academic background for its participants, although many do have college educations. The program is taught by senior professors in BU's School of Management, but it teaches no complex management theory. Instead, says BU provost Jon Westling, the program is "directed explicitly to the problems of thinking through a business plan, finding financing, and getting started and owning one's own small business."

While race is not a factor for admission, the program is aimed at the minority population. CEA project director Carol Dillon says that in the 1984-85 year, 80 percent of the participants were from minority backgrounds, largely black. Over half were women, most of whom were single heads of households.



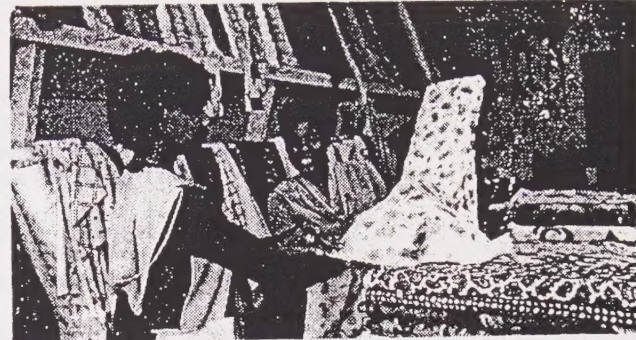
Ferdinand's shop, Nia Fabrics, filled a need in her area

Programs to encourage small minority enterprises are not new. Many of America's 275 cities, facing serious problems with inner-city poverty, are hatching ways to guide minorities into successful business ventures. But Howell, who made a wide study of other programs before helping launch this one, notes that "almost all the others were failing because they were taking the minorities to the bankers first" — before they had written a sound business plan. The result: Banks often refused to fund poorly conceived projects, drawing accusations from the inner-city community that the banks were unwilling to support minority enterprises.

But in this program, Howell says, "we're not asking [the bankers] to do something [they] wouldn't otherwise do." By the time candidates pay a visit to a loan officer, they have done a lot of homework — and had a lot of thoroughly professional advice.

The Council's Small Business Development System offers a new — and proven — approach to help communities fulfill their goals of small business creation and expansion. The System has been designed to produce 30-40 new businesses during a relatively short period of time — usually within 24 to 30 months after the program is launched. The new business opportunities that are identified and started and/or expanded as a result of the System are relatively small-scale with reasonable capital entry and management requirements, and with a high probability of success. Thus these business opportunities are accessible to a wide range of individuals — including the very ones who are usually "left out" of the dynamics of the much broader economic development process in an urban area. Many of these individuals may be minorities, underscoring the value of the Small Business Development System in opening up the urban economic process to all community residents.

Although the results may vary somewhat from community to community, experience in Boston indicates that the 30-40 new businesses expected to be produced by the System can in turn create 200-250 new jobs annually in the central city. Clearly, the Small Business Development System represents a vital new economic development tool to assist your county or city in building and strengthening its economic base. The System, as we will highlight through the Boston experience, is a practical program that works because it is directed specifically at taking the randomness out of the small business development process, and because it focuses local resources on promising small business opportunities in targeted areas.



Ferdinand (r.) helps customer at Nia Fabrics, begun with help from BU

So far, the bankers have liked what they have seen. After its first year, the BU program has already generated more than 20 new companies.*

Equally important, however, are the numbers of people who have not tried to start up businesses. Another role of the program is to discourage people from going into business if they're not ready, says Howell.

The course, in fact, is designed to cull the less prepared. It begins with a two-day "short course" (costing \$60), during which each student writes a brief prospectus. Of the 180 students who enrolled in the weekend or evening short course last September, 45 stayed on for the "long course" (costing about \$600), which lasted from October to January.

"The people who came in with an idea [for a prospective business venture] got the most benefit out of it," says Ernie Bannister, a graduate of the program, who is now buying his own commercial printing business in Cambridge. He credits the BU staff for teaching him "the intricacies of knowing what to do and when to do it," as well as for pointing out "both the upsides and the downsides" of running one's own company. After the course is over, its graduates remain in contact with CEA, which continues to advise them.

As it enters its second year, the program is advertising locally through newspapers, radio, and even announcements from the pulpits of inner-city churches. There are plans afoot to replicate the program in Milwaukee, Wis., and Stockton, Calif. And the federal Department of Housing and Urban Affairs is searching for three other cities in which to set up similar projects.

What does a city need to qualify? Obviously, a school capable of teaching sound business-management techniques, Howell says. Beyond that it needs "a locus of concern concentrated in one or two people," as well as some kind of minority bank or foundation to help move the project forward. The community, he adds, "has to want it really badly."

That, on a more personal level, is the story of Rose Ferdinand. Fascinated with clothing and fabrics since she was 13, she was living in Boston and working at a job with a pharmaceutical company when she heard about the BU program. She had known since she was 18 that she wanted to open her own store. But it took the BU course to show her how.

What led her to Mattapan? Mrs. Ferdinand says she "wanted the store to be in the community" near her home. That turned out to be a solid business decision.

In doing her market research, Mrs. Ferdinand, whose husband is Haitian, discovered that the area has a large number of people of Caribbean extraction — who, she says, typically make their own clothes.

She offers fabrics, patterns, and advanced sewing lessons, and is already casting an eye about for larger quarters. "From the research I've done," she says, "we can make three times the money with larger space."

* 22 Companies
- 87 Jobs

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Study shows businesses city needs

By PAMELA YIP
Record Business Writer

Thinking of starting your own small business? Your best bets are becoming a tire wholesaler, opening a moving and storage company or operating a record store.

You might have a harder time if you decided to operate nursing and rest homes, a lithography business or a campsite.

Those are some of the businesses that have been identified as having strong and not-so-strong growth potential in a study conducted by the Council For Economic Action Inc., a Boston research firm.

Results of the \$30,000 study were released Tuesday to the city's Small Business Identification Steering Committee. The study is part of a multi-phase program aimed at fostering more small businesses in the Stockton area and will include a program at University of the Pacific aimed at teaching would-be entrepreneurs the fine art of running a business.

Of the 300 businesses studied, 25 or were found to be undersupplied and 31 were oversupplied, said Judy P. Appelt, research director.

Industries found to be growing at a rate just about in harmony with



Judy Appelt

the size of the Stockton area include nursing, real estate appraising and managing, dental laboratories, motion picture production services and delivery services.

Appelt said researchers found there wasn't any undersupply in the manufacturing industry, which means that the industry is growing at just about the right rate for the size of the Stockton urban area. However, business and professional services were found to be undersupplied by 11, wholesale industries by 10, retail industries by two and consumer services by two.

Industries found to have "significant" growth potential include hardware wholesalers, court stenographers and stenography services, direct mail advertising firms and television rental services.

Those businesses with "strong" growth potential include temporary help services, professional equipment and wholesalers suppliers, video and sound services, bookkeeping firms, testing laboratories, messenger services and women's clothing wholesalers.

Having "above average" growth potential are housewares wholesalers, electronic parts and equipment whole-

salers, electronic parts and equipment wholesalers, secretarial services, petroleum products wholesalers and appliance repair services.

Oversupplied businesses include computer programming firms, auctioneers and liquidators, welding equipment distributors, fruit and vegetable canners and farm and garden machinery wholesalers.

Appelt said in that category there is indication that the industries "are a bit saturated, but the market for them may grow as well so they may expand also."



James Howell

man of the research firm.

"It says there are about 70 small business firms here that are eager to expand and participate in Stockton's economic growth," he said.

The firms wanting to expand cited lack of space, availability of credit or capital, availability of labor and sluggish growth in their individual industries as obstacles to realizing their plans, Appelt said.

Howell said it's important to cultivate potential small businesses because they create the most jobs.

"Two-thirds of all jobs created in the 70s were created by independently owned business firms of 20 or fewer employees," he said, adding that of the 14 million businesses in the United States, only about 200,000 are large firms.

Howell also said most of the undersupplied industries in the Stockton area were located downtown, indicating a strong growth potential for the area.

Appelt said Stockton has a "very well-balanced growing economy."

"The firms that we saw in the field generally were healthy ones," she said. "I think downtown certainly does have good prospects. The general area is growing."

The Stockton Record
July 31, 1985

	Industries Analyzed		Industries Undersupplied	
	Number	Percent	Number	Percent
Manufacturing Industries	96	32	0	0
Business & Professional Serv	73	24	11	44
Wholesale Industries	78	26	10	40
Retail Industries	18	6	2	8
Consumer Services	35	12	2	8
Total Industries	300		25	

POTENTIAL BUSINESSES FOR YOU TO START IN STOCKTON

You have thought about starting your own business and are eager to move forward. You would like to "set up shop" in the Stockton urban area. You feel ready to take the next step.

At this point you are probably considering the kind of business venture you want. You may have always been interested in a particular business or you may be basing your start-up choice on what appears to be a good prospect for the local market. In fact, you may even have done the detailed market analysis of your potential customers and location that are required for a business plan.

In the past, these were the only guides at your disposal for selecting a business with above average chances for success. Times have changed. The Council for Economic Action, Inc. and the Economics Department of the Bank of Boston have jointly developed a new research technique to target successful growth industries.

How do the results of this technique compare with your own hunches? Here is one way to find out.

Listed below are 20 kinds of businesses. Check the ones which you believe offer good-to-excellent growth prospects for Stockton. Later in this booklet, we will list the results which emerged from our research.

Business and Professional Services

- | | |
|------------------------------------|--------------------------------|
| o Bookkeeping Services | o Medical Laboratories |
| o Computer Programming Services | o Messenger Services |
| o Data Processing Services | o Secretarial Services |
| o Direct Mail Advertising Services | o Telephone Answering Services |
| o Janitorial Services | o Temporary Help Services |

Manufacturing Industries

- | | |
|---------------------------------|----------------------------------|
| o Millwork Plants | o Sheet Metal Work Manufacturers |
| o Wooden Cabinets Manufacturers | |

Wholesale Trade Industries

- | | |
|--|---|
| o Automotive Parts Wholesalers | o Professional Equipment and Supply Wholesalers |
| o Beauty Shop Equipment and Supply Dealers | o Welding Equipment Distributors |

Retail Trade and Consumer Services

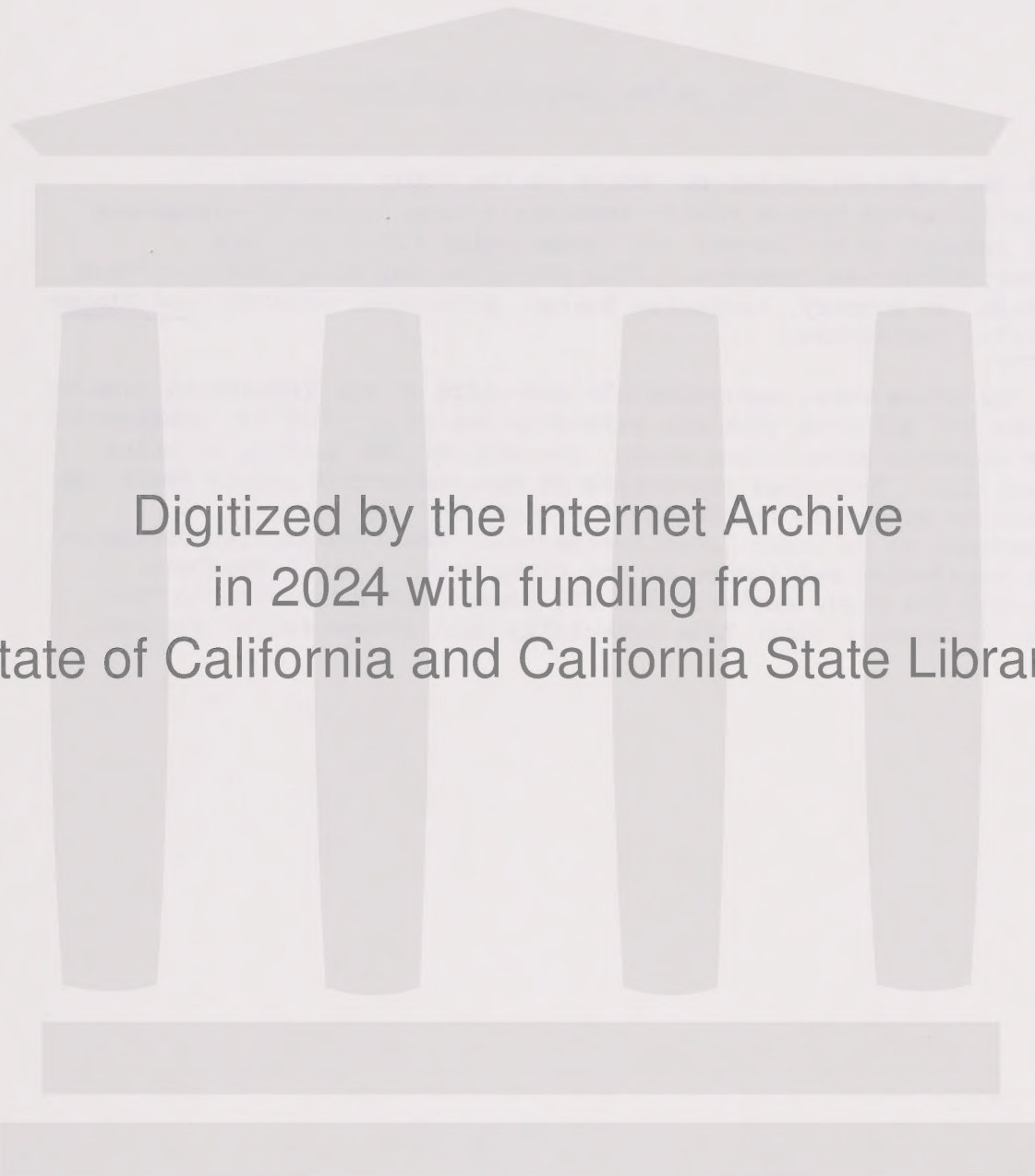
- | | |
|-------------------|--|
| o Campsites | o Curtain, Drapery, and Upholstery Material Stores |
| o Power Laundries | |

Our research on new business opportunities in Stockton was undertaken from February to September, 1985. What follows is an elaboration of this research--how our technique works, why it works, what the results show for Stockton, and how you can use these results to start your own business.

UBI: A New Research Technique

The new research technique--known as the Urban Business Identification System (UBI)--examines a broad range of businesses and industries to "ferret out" those which offer the best opportunities for success. This procedure has been used in cities across the country, including Boston, Milwaukee, Trenton, and Placer County, California.

In any urban area, approximately one-third of the industries produce goods and services that are primarily exported--that is, transported for sale--to other urban areas, the rest of the nation, or other countries. The other two-thirds of the industries supply goods and services primarily to the local market, selling directly to consumers or to other local businesses. These industries depend on the population and income of the urban area in which they are located for their market. The UBI identifies industries in this second category which have especially good prospects for success.



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The UBI technique is based on the fact that the various types of industries and the number of firms in them are similar in cities of similar population size and income levels. If a city has fewer firms in an industry than its "peer cities", this industry is said to be "undersupplied." These industries are likely to experience an acceleration of new business starts with a high probability of success. By identifying undersupplied industries, we can tell which industries offer the best prospects for people like yourself.

In order to determine the presence of undersupplied industries, we undertake a detailed comparative industry-by-industry assessment of cities with highly similar economies. In the Stockton analysis the comparison cities were Oxnard, Fresno, Tacoma, Vallejo, Salinas, and Modesto.

Of the 300 industries analyzed in the Stockton market, most of them--over 80 percent--were in equilibrium, or balance, in terms of the expected and actual number of firms operating in each industry given the income and population of Stockton. The remaining 20 percent were divided into undersupply-oversupply situations. The list of undersupplied industries offer promising business opportunities for the Stockton urban area.

Once the undersupplied industries were identified, a field analysis was made to confirm that the identified kinds of industries were, in fact, undersupplied. Field visits were made to a large number of the currently operating businesses in industries which were categorized as undersupplied. A survey was taken of each firm which included specific information on neighborhood characteristics, location, building, parking, inventory, and number, types and activities of employees, and customers visible at the time of the survey. For a smaller sample of business managers operating in each industry, the field staff conducted detailed interviews, providing information on the stability of the firms, secondary lines of business, employment size, and locational requirements. The field testing, therefore, confirmed the final list of industries most likely to have start-up success.

As a final step, the undersupplied industries identified in earlier stages of the analysis were examined for their recent and projected growth trends. Clearly, a firm's potential for success will be enhanced by a strong growth trend for its industry. To classify an undersupplied industry in a high growth situation, three important criteria were used.

- o Is it part of an expanding industry in both the urban area and the state during a recent growth period?
- o Is it gaining in comparative advantage in the selected market vis-a-vis the nation?
- o Is it part of a national industry in which there are strong growth prospects projected for the current decade?

Taken together, these three criteria represent another important dimension in the Urban Business Identification System, which was used to identify undersupplied industries with the highest probability of growth potential in the Stockton urban area.

Undersupplied Industries In The
Stockton Urban Area

In order to identify the types of businesses with the highest potential for success in the Stockton urban area market, the Council for Economic Action, Inc. worked closely with the Stockton Small Business Development Working Group--a special group formed to guide this project and, specifically, to select from a list of 785 possible industries the approximately 300 industries to be analyzed using the UBI technique. These industries were in the following categories:

	<u>Industries Analyzed</u>	
	<u>Number</u>	<u>Percent</u>
Manufacturing Industries	96	32%
Business and Professional Services	73	24
Wholesale Industries	78	26
Retail Industries	18	6
Consumer Services	<u>35</u>	<u>12</u>
Total Industries	300	100%

These 300 industries were analyzed to identify those which were undersupplied, in equilibrium, and oversupplied in terms of the number of firms in each vis-a-vis the six comparison urban areas which are listed below:

<u>Larger Than Stockton</u>		<u>Smaller Than Stockton</u>	
<u>Urban Area</u>	<u>Population</u>	<u>Urban Area</u>	<u>Population</u>
Oxnard	529,899	Vallejo	334,402
Fresno	515,013	Salinas	290,444
Tacoma	485,643	Modesto	265,902

(The Stockton urban area had a population in 1980 of 347,342, of whom 149,779 resided in the city.)

We were most interested in identifying industries with fewer than the expected number of firms--the undersupplied industries--because they represent targets of opportunity for new firms or expansions.

The results of this study revealed the following classifications:

Undersupplied	25
Equilibrium	244
Oversupplied	31

The undersupplied industries were distributed among the following major industry groups:

	<u>Number</u>	<u>Percent</u>
Manufacturing Industries	0	0%
Business and Professional Services	9	36
Wholesale Industries	10	40
Retail Industries	2	8
Consumer Services	<u>4</u>	<u>16</u>
Total	25	100%

Overall, the analysis identified 25 undersupplied industries--all special targets of opportunity for the Stockton urban area. There are 393 firms now operating in these industries in the urban area, and our analysis suggests that as many as 171 additional firms in these industries can be supported in the area. Of the 393 existing firms, 249 are located within the city of Stockton; it is estimated that 108 of the 171 additional firms could be supported in the city.

The 25 undersupplied industries are shown in the following table, along with the number of additional firms that may be supported in the Stockton urban area (the degree of undersupply). Compare this list with your own assessment on Page 1 of this booklet. Be very careful--the industries on Page 1 that are not undersupplied in the Stockton urban area are, in fact, oversupplied and are not recommended as targets of opportunity!

UNDERSUPPLIED INDUSTRIES IN THE
STOCKTON URBAN AREA

	<u>Potential Number Of New Firms</u>
<u>Business and Professional Services</u>	
Bookkeeping Services	15
Court Stenographers and Stenography Services	4
Data Processing Services	8
Direct Mail Advertising Services	3
Messenger Services	3
Recording Services (Video and Sound)	6
Secretarial Services	4
Temporary Help Services	5
Testing Laboratories	3
<u>Wholesale Trade Industries</u>	
Automotive Parts Wholesalers	10
Carpet, Rug and Floor Covering Wholesalers	2
Electronic Parts and Equipment Wholesalers	12
Furniture Wholesalers	8
Hardware Wholesalers	6
Housewares Wholesalers	2
Petroleum Products Wholesalers	7
Professional Equipment and Supplies Wholesalers	9
Tire Wholesalers	5
Women's Clothing Wholesalers	8
<u>Retail Trade Industries</u>	
Curtain, Drapery and Upholstery Material Stores	15
Phonograph Records Stores	7
<u>Consumer Services</u>	
Appliance Repair Services	7
Electronic Equipment Repair Services	3
Moving and Storage Services	12
Television Rental Services	7

Selecting an Industry

There are several factors which should affect your choice of an industry. They relate to areas such as the potential market, the capital needed to get started, management skills, and your own personal preferences for the environment you like to work in. Some considerations relating to the potential of market, capital needs, and management skills are illustrated below. Included is a brief description of the issues and a list of local undersupplied industries which meet the criteria described.

Industries Where Local Demand Is Being Served Through Imports

These are markets found to be predominantly supplied by firms located in larger urban areas. The role of imports in satisfying local demand is important because experience has shown that it is easier to enter an urban market where some portion of local demand is being supplied by imports. The advantages of face-to-face contact, as well as potential savings in transportation costs and delivery time, may provide substantial advantages to new or expanded local firms in these industries.

- o Direct Mail Advertising
- o Hardware Wholesalers
- o Testing Laboratories
- o Tire Wholesalers

Industries Having A Large Number Of Entry Opportunities

Industries that offer more than 10 entry opportunities in the Stockton urban area present especially good opportunities for start-up firms.

- o Moving and Storage Services
- o Bookkeeping Services
- o Electronic Parts and Equipment Wholesalers
- o Automotive Parts Wholesalers
- o Curtain, Drapery, and Upholstery Material Stores

Industries Serving Local Retail Markets

Industries classified in this group are those that directly serve consumers in the local market. These retail and consumer service industries traditionally have the smallest geographic market areas--often, just a segment of the larger urban area. These businesses can be located in neighborhoods or shopping centers and have modest capital entry and labor costs.

- o Curtain, Drapery and Upholstery Material Stores
- o Moving and Storage Services
- o Phonograph Record Stores
- o Television Rental Services

Industries Serving Local Retail And/Or Manufacturing Industries

Firms found in this category serve other businesses with products and/or services. They represent both those industries that are among the fastest growing in the national economy and the slower growing, more traditional wholesale industries. Many of them have relatively low capital entry and employee size requirements; a few require specialized technical skills and managerial training.

- o Furniture Wholesalers
- o Carpet, Rug, and Floor Covering Wholesalers
- o Data Processing Service
- o Professional Equipment and Supplies Wholesalers
- o Bookkeeping Services
- o Messenger Services
- o Women's Clothing Wholesalers
- o Petroleum Products Wholesalers
- o Housewares Wholesalers
- o Automotive Parts Wholesalers

Industries Having Low To Modest Capital Entry Requirements

Businesses that are classified under this heading have relatively minimal capital entry requirements--that is, financing requirements in the \$20,000 to \$100,000 range. Many start-up business owners will find these industries most appropriate for their current resources. In addition, most of the industries in this group also have low employee size requirements.

- o Court Stenographers and Stenography Services
- o Bookkeeping Services
- o Secretarial Services
- o Direct Mail Advertising Services
- o Data Processing Services
- o Moving and Storage Services
- o Temporary Help Services
- o Recording Services (Video and Sound)
- o Curtain, Drapery, and Upholstery Material Stores
- o Appliance Repair Services

Industries Having Relatively Low Numbers of Employees

Firms in these industries typically average five or fewer employees. A start-up firm may, therefore, begin operations on a very small scale and quickly attain a highly competitive position.

- o Bookkeeping Services
- o Secretarial Services
- o Testing Laboratories
- o Temporary Employment Services
- o Messenger Services
- o Appliance Repair Services

Industries Where Franchising Opportunities Are Available

Firms affiliated through franchises have been increasing market share each year. Presently, 33 percent of total retail sales are made through franchises; this is expected to increase to 50 percent by the year 2000. Although franchise arrangements should be investigated carefully, the better ones provide assistance in selecting and obtaining good locations, store arrangement, management and employee training, and ongoing technical assistance. As a result, only 4 percent of new franchises fail each year.

- o Television Rental Services
- o Data Processing Services
- o Moving and Storage Services
- o Temporary Help Services
- o Phonograph Record Stores
- o Bookkeeping Services
- o Secretarial Services
- o Petroleum Products Wholesalers

Industries Requiring Sophisticated Managerial Skills

These undersupplied industries require the new entrant to possess specialized managerial training for a successful venture. Most of these industries also require technical knowledge of the product or service being offered. Some of the industries with the strongest growth potential in the coming years are found in this group.

- o Electronics Parts and Equipment Wholesalers
- o Electronics Equipment/Repair Services
- o Professional Equipment and Supplies Wholesalers
- o Data Processing Services
- o Bookkeeping Services

However, some business owners--perhaps you are one--prefer to start small businesses and have them remain small. Some of the undersupplied industries are very suitable for this because the majority of existing competitors are also small. In others, it is possible to affiliate with a franchise organization, which will provide management support from the inception of a small business throughout its life. Finally, some of the undersupplied industries require more sophisticated managerial skills; some also require that employees have technical skills.

While the considerations identified above are very important, you should also remember that your own preferences must be considered.

Comment On How To Use This Information

We have discussed the critical elements in any successful new business endeavor--market, capital, and management. The UBI has been designed to identify industries having fewer than the expected number of firms and industries which are also experiencing growth. As such, they represent prime targets of opportunity for new start-ups. A closer examination of the opportunities we have identified can enable you to select an industry with the right market, capital, and management mix for you--an industry which fits your personal goals and preferences.

This course is designed to help you begin this process. We know that you will have questions as you continue on to the realization of your goal of having your own business. To help as you proceed, the Stockton Small Business Development Program will be available to answer your questions and provide technical assistance. Keep this number handy, and call Annette Johnson at 460-7066 whenever you need help.

Note to the Reader:

There are a multitude of factors that enter into the success of a business effort. Capital structure of the firm, the product or service, market analysis, and the talent and effort of the management team all play an important role. This analysis examines the Stockton urban area to determine where gaps in local business production capacity exists and identifies those types of business enterprises that have a high likelihood of success.

However, this report by no means should be used as the sole basis for entry into one of the business enterprises identified. The results of this study are subject to certain constraints and limitations, and they do not consider all of the variables associated with a successful business effort.

This analysis is one component of the Stockton Small Business Development System. The total program also includes an entrepreneurial education program and on-going technical assistance.

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